3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

VIII

Currency, Prices, and Wages

FOR those with no personal experience of rapid and uncontrolled inflation the full significance of the Austrian Government's post-War measures to regulate currency and prices is not easy to appreciate. The average Austrian found them complex and even mysterious, but he had no doubt about their importance. Between 1945 and 1951 the Government passed three major laws dealing with the currency and approved five agreements regulating wages, prices, and cost of living. Apart from their financial and economic results, these measures had considerable social and political implications. In fact, their effects on political life and society are likely to be the more lasting.

Immediately after the liberation Austria was faced with two major financial problems: she had no national currency of her own and the banks were virtually empty. The need to establish an Austrian currency was urgent. The country was being flooded with German mark notes from Czechoslovakia and Hungary, where they were considered valueless, and the occupying Powers were temporarily printing their own money, which soon reached a total of about a billion schillings. Almost all the banks' cash had been removed by the Russians, and their main 'assets' were in the form of valueless German Government Bonds. It was for this reason that the Provisional Government was unable to pay any public servant more than 150 marks a month. It was only able to do as much because the Russians made available as a 'loan' 600 million marks taken very largely from the sums that they had seized.

The Government decided that it could take no steps to establish an Austrian currency until the country was united. But on the 3rd of July 1945 the so-called *Schaltergesetz*, or Counter Law, was passed, covering withdrawals from banks.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

The recognition of the Provisional Government by the Western Allies in October 1945 and the elections in November cleared the way for the re-establishment of an Austrian national currency. On the 30th of November the interim Government, without waiting for the formation of the Figl Cabinet, announced its approval of a 'Schilling Law', and one of the first acts of the new Parliament on the 21st of December was to pass this measure.

The law replaced the German mark and pfennig by the Austrian schilling and groschen at the rate of 1 for 1. All German currency except for denominations lower than ten marks was to be exchanged for the new Austrian schillings, and the same applied to the Allied Military Schillings which had been issued as a temporary currency. Everyone received 150 schillings in cash and the rest was credited to his account. Marks in lower denominations were exchanged for schillings during February and March 1946.

The second main purpose of the Schilling Law was, in general terms, to extend the provisions of the Counter Law from the area occupied by the Russians to the whole of Austria. The details were inevitably complicated owing to the different situations in each part of the country and owing to the decision to place in a separate category funds deposited between the 1st and the 22nd of December 1945. Roughly, however, the division of accounts continued into 60 per cent that was blocked and 40 per cent that was conditionally free, although minor alterations were made in the conditions under which the free funds could be used. Deposits made after the 22nd of December 1945 could be used without restriction.

Some disappointment and bitterness were felt in Russian-occupied Austria that 60 per cent of the 'new accounts' were now blocked, as the people had been given to understand that deposits made on or after the 5th of July 1945 would be freely at their disposal. On this assumption, after the Counter Law was passed, the public had confidently continued to use the banks for their savings.

Subject to Allied supervision, the Schilling Law gave back to

436
652

Development of the Currency Circulation at the End of 1950 (in millions of schillings)

[Calculation of the currency circulation in accordance with American standards: money in circulation plus contingent liabilities of the Austrian National Bank plus checking account deposits with banks, minus inter-banking and savings deposits.]

	Money in Circulation	Contingent Liabilities excl. Inter-Bank Deposits with the National Bank	Checking Deposits with Banks	Total of Currency Circulation
End of December 1949	5,721.0	1,221.6	5,987.5	12,930.1
End of September 1950	5,862.9	1,283.8	6,949.3	14,096.0
Increase during the first three quarters 1950	† 141.9	† 62.2	† 961.8	† 1,165.9
End of September 1950	5,862.9	1,283.8	6,949.3	14,096.0
End of December 1950	6,348.8	987.7	7,271.1	14,607.6
Increase or decrease during last quarter 1950	† 485.9	- 296.1	† 321.8	† 511.6

During 1950, currency in circulation increased 1,677.5 million schillings (from 12,930.1 to 14,607.6); 627.8 million schillings of this amount represented an increase of circulating money (37.4 per cent) while the so-called "Release Program" originally estimated an increase of only 300 million schillings. This overdraft had its cause in lower receipts of ERP accounts as shown by the following figures.

In 1950 about 2,884 million schillings were received in ERP counterpart accounts. The disposals (releases of 95 per cent plus 5 per cent ECA administration costs) amounted to 2,330 million schillings so that the actual increase in ERP accounts

652 totaled only 454 million schillings. In accordance
[436] with the original "Release Program" it should have amounted to 800 million schillings to neutralize other money-increasing factors. The minus-difference is based on the fact that the anticipated decrease of the price-gap subsidies was delayed, as a consequence of changes in world markets, in order to avoid too sudden changes in the price and wage structures.

[457] To summarize: in spite of and mindful of the world-wide economic fluctuations affecting her economy, Austria is carrying out reconstruction within the scope provided by ERP facilities. Aside from scheduled reductions any decrease in the real value of this assistance makes the accomplishment of her programs more difficult (especially the balancing of her balance of payments).

c) Prices and wages, elimination of subsidies, adjustment of exchange rates, increase of economic productivity.

652 With the progressing consolidation,
[443] resulting from ERP procedures, the Austrian Federal
185 Government faced a number of problems. Aside from the aspect of the stipulated gradual decrease of foreign aid, these problems gained importance when Austria signed the European Payment Union (EPU) agreement in September 1950. She had entered upon obligations which could be met only if her economic policy was directed towards certain external economic goals (expansion of direct and indirect exports). This required certain measures aimed internally (balancing of prices and wages) as well as externally (adjustment of exchange rates).

The measures to be adopted within the framework of economic relationships had the following points in view.

1) Counteract inflationary tendencies according to timely needs;
2) Decrease step by step the system of subsidies for essential commodities, like edibles, coal and agricultural products, in order to achieve, besides a budgetary relief, "genuine" prices;
3) Bring prices gradually in line with world market levels;
4) Establish an equilibrium between prices and wages, in order to guarantee, in relation to prevailing prices of manufactured goods, an equitable

out that the main proportion of the extension of credits (as a consequence of the first agreement) flowed out of the accounts for financing imports of vital raw materials and of credits for the support of exports. These conditions do not lie within the banks' sphere of influence (not taking into consideration the directives for credits as laid down in the public investment programs). The occasional considerable reserves of the banks, which are tied up with the allocation of foreign currencies, must be taken into consideration. 652 453 452

It is a fact that the individual measures already showed an impact toward the end of the year. According to the statistics on credits and liquid money of November 30, 1951 (i.e., one month after the enforcement of the second agreement) the volume of credit, which is under control, decreased for the first time since 1947 by 30 million schillings--a rather low amount. Even if one considers the financing of credits for exports, and the especially high financing of credits for the sugar beet harvest, there is a total decline in volume by 80 million schillings at a time when a general increase in credit demands could be observed.

There are today two methods of determining the total of the means of payment in an economy at any given date. The Anglo-American method takes into account the total volume of the means of payments in circulation, plus free obligations of the national bank, plus checking account deposits at the commercial banks, minus interim bank obligations (i.e., deposits of credit institutions at the national bank and at credit institutions). The Continental method does not take into consideration the checking account deposits at commercial banks. (Recently, the Anglo-American method has been used in Austria, too.)

If one compares the development of the volume of money (paper money in circulation, plus checking account deposits, plus free deposits not at the banks but at the Nationalbank) in the previous year, an increase is shown from 14,608 million schillings to 17,164 million schillings since the end of December 1950 to the end of October 1951 as against a credit volume of 10,677 million schillings and 14,780 million schillings, respectively. The circulation of paper money rose in this period from 6,349 to 7,326 million schillings, the checking account deposits from 7,271 to 8,939 million schillings. The free deposits of public agencies, which 436 652 453

436 652 453

are held at the Nationalbank, sank from 988 to 800 million schillings in the same period. At the end of December 1951 the circulation of paper money amounted to 8,023 million schillings, the free non-bank deposits to 987.7 million schillings.

The flow of the volume of money was mainly influenced by the expansion of credits as well as by the flow of counterpart accounts. Exits on the basis of releases and current payments from proceeds caused a decline in time-limited deposits of public agencies at the Nationalbank (mainly counterpart accounts) from 1,941 million schillings at the end of December 1950 to 1,290 million schillings at the end of October 1951.

Bank statements show a considerable reduction in the "Bundesnotenschuld," from 4,124 million schillings in October 1951, and 2,030 million schillings at the end of December 1951. In the first statement after the currency reform of 1947, this item was still 7,547 million schillings higher. The exits in the last four years amounted to about 5,517 million schillings. Out of this amount, 850 million schillings went to retirement of the national debt (as provided for the purpose of securing currency stability on December 31, 1948). Another approximately 4,461 million schillings went to the releases of ECA funds for ERP investments in industrial enterprises; the remaining 205 million schillings went for other economic and political-financial purposes.

Amounts increased, however, for refinancing the reconstruction credits. From December 1950 to the end of October 1951, the increase was from 2,277 million schillings to 3,612 million schillings, and exceeded by 4,042 million schillings the 4 billion limit at the end of December 1951. The subsequent treatment of these blocs of reconstruction drafts (which were no longer handled by the Nationalbank) and their transfer on the capital market has been treated in another connection.

The free endorsement deposits of the credit institutions sank with the extension of credits from 299 million schillings (at the end of December 1950) to 211 million schillings (at the end of October 1951). However, they recovered to 540 million schillings towards the end of December. This increase is very closely related with the obligations of the banks to keep 10 per cent of their credits in liquid means of the first grade.

A comparison of the Nationalbank's position as of the key-dates (December 31, 1950 and 1951) gives the following picture. 652

	1951	1950	† or -
	(In millions of schillings)		
ASSETS			
Gold	51.1	50.3	† 0.6
Foreign currencies	582.5	449.3	† 133.2
Checks	1,709.8	809.2	† 900.6
Teilmünzen (coins)	2.3	2.8	- 0.3
Reconstruction credits	4,041.9	2,227.0	†1,814.9
Bonds (under par. 27 of the Währungsschutzgesetz)	807.0	749.3	† 57.7
Bonds (under par. 2, item 1, of the amendment of the Notenbanküberleitungsgesetz)	1,402.7	1,200.2	† 202.3
Loans	34.5	34.7	- 0.2
Money debts of the state	2,029.9	4,123.9	-2,094.0
DEBITS			
Circulation of bank-notes	8,032.0	6,348.9	†1,683.1
Free banking accounts of credit institutions	539.5	428.6	† 110.9
Others	580.6	987.7	- 407.1
Closed banking accounts of credit institutions	40.3	40.3	--
Others	1,469.3	1,841.4	- 372.1

Finally, one can state that in the course of the year 1951 the total volume of the means of payments increased by 20 per cent, the circulation of bank notes alone by about 26.5 per cent. At the same time there was an increase of the general level of prices by about 40 per cent. [436] [435]

The adjustments and reactions of the last year which are shown in the first half of the year in an extension of and in the last quarter of the year in a contraction of the credit volume are, however, only one side of a total economic problem. The problem itself is characterized by achieving a balance of payments.

In comparison to prewar times a definite lowering of individual performance efficiency had set in among the rest of the population caused by years of undernourishment and poor general physical condition aggravated by a series of psychological strains up to 1947. Another thing to be taken into account was the reorientation of the entire European economic structure in the wake of political changes, particularly the solution of certain problems of large industrial enterprises (the iron and steel industry). Last but not least were the great economic and political changes which had taken place in the areas of Austria's traditional markets, eastern and southeastern Europe.

The destruction of capital substance weighed particularly heavy. It was obvious that the greater part of savings capital, accumulated prior to 1945, was economically no longer covered. Within the scope of a planned war economy that money had either been invested in weapons and war material which became valueless, or it was originally invested in profitable enterprises which were destroyed or diminished through the effects of the war, e.g., plants, equipment, razed woodland, etc. On the other hand, in accordance with instructions of the German finance administration, great parts of the liquid assets and reserves of banks, the premium reserves of large insurance companies, etc., had to be invested in bonds of the German Reich (especially Reichsschaftsanweisungen), whose value became as questionable as savings deposits.

In view of these circumstances the Austrian federal government faced difficult problems. For the sake of simply existing it was necessary to reestablish the financial foundation, a task impossible to accomplish without a proper Austrian currency (to be newly created), without gold or foreign exchange reserves to cover this currency, without a national bank of issue, without reconstruction of a banking and credit apparatus, and particularly without first straightening out the balances essential to large banking institutions.

Not any less difficult to solve, in relation to the previously mentioned conditions, was the second problem: the revival of production and trade. Apart from incurred losses in plants, machinery and raw materials, the disorganization of communication and the dislocation of great parts of the population, valuable components of the production apparatus as well as other natural assets of the Austrian economy, classified as

453 652 capital; the country's foreign credit was too closely bound up with the solvency of this bank. The Government therefore stepped in within four days and, together with the Austrian National Bank and the House of Rothschild, assumed responsibility for its financial reconstruction. A number of measures followed in quick succession. The government guaranteed first the foreign, and later also the domestic deposits of the Credit-Anstalt. A committee was set up in London to represent the interests of foreign creditors. An agreement was signed providing that 500 million schillings of foreign short-term credits were not to be withdrawn for two years. Strict economies were introduced. Salaries and pensions were heavily cut by 453 652 decree; many of the bank's employees were sacked. The problem of an overgrown banking system was at last being solved; but in a way which created much misery and 464 dislocation. No doubt, the Credit-Anstalt had somehow to be saved. But the Government was too concerned about the profitability of the concern and the interests of the shareholders. Its measures contributed to the already serious structural unemployment among the middle classes and served to prolong the depression. Moreover, the Government missed an unique opportunity of using its newly gained influence over the main credit institution to re-organize and direct the country's industrial structure in the national interest.

453 436 652 457 But the collapse of the Credit-Anstalt did not only call for far-reaching measures for the restoration of that institution. It also had grave repercussions on Austria's monetary system. The National Bank had been forced to re-discount a large number of Credit-Anstalt bills, and the note circulation began to swell. At the same time, in spite of the Government's speedy assistance and guarantee, confidence had been shaken and funds were withdrawn

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

from the Credit-Anstalt on a large scale. Particularly foreign short-term credits, which had already trickled outwards ever since 1929, were now called in rapidly. About 1,000 million schillings were withdrawn from Austria within a year.

This put a severe strain on the foreign exchange reserves of the National Bank. The stability of the currency, which had rested on a firm basis since the inflation had come to an end, was threatened once again.[1] Support was urgently needed and, for the second time in its short history, the Austrian Republic had to appeal for foreign help. Some welcome, but sadly inadequate, help was rendered in June, 1931, in the shape of a 150 million schillings credit from the Bank of England and 100 million schillings from the Bank for International Settlements. This eased the strain for the moment, but soon there was a renewed decline in foreign exchange reserves. Germany and Hungary suspended their foreign payments. This meant not only a loss of expected income but it also undermined confidence still further and a flight of capital set in which threw the foreign exchange market completely out of gear.

On August 7th, 1931, the Austrian Government asked the League of Nations for a 250 million schillings loan. As in 1922, this loan was ultimately granted. But again the help did not come soon enough. After prolonged negotiations and investigations the Financial Committee of the League of Nations stressed in March, 1932, that the financial strain of Austria, Hungary, Greece, Bulgaria, etc., was mainly due to world causes over which they had very little control, and that there was an urgent need for international financial help. In the summer of 1933, two years after the first appeal, the loan was finally launched.

But in the meantime the position had gone from bad

1 [(1 CATEGORY 116, PP. 63-64 -- ANALYST]